

TEXT OF E-MAILS FROM HENRY REES TO DUE PROCESS OVERSIGHT COMMITTEE (DPOC)

Date: 12 May 2014

Dear DPOC Members,

The IASB meeting takes place between 20 -23 May 2014 in London. There is just one due process paper which we would like to bring to your attention. The paper relates to IAS 28 *Investments in Associates and Joint Ventures: Equity Method* – Share of other Net Asset Changes.

In our report to the DPOC meeting in April 2014 we noted:

IAS 28 *Investments in Associates and Joint Ventures: Equity Method*—Share of Other Net Asset Changes

68. *In November 2012 the IASB published an Exposure Draft of proposed amendments to IAS 28. The objective was to provide additional guidance to IAS 28 on the application of the equity method. The Interpretations Committee considered the comment letters in July 2013 and the IASB discussed the comments received and the Interpretations Committee's recommendations in October and December 2013.*
69. *The IASB has tentatively decided to finalise the proposed amendments, because they are a short-term solution to address diversity in practice. The amendment was discussed at the ASAF meeting in March 2014 where it was explained that IASB recognised the solution proposed was practical rather than conceptual.*
70. *At its meeting in March 2014, the IASB considered the due process steps undertaken. The final amendment is expected to be issued in the second quarter of 2014. The effective date of the amendment will be 1 January 2016. Two IASB members have indicated their intention to dissent from the final amendment.*

Agenda paper 14: Equity Method -Share of Other Net Asset Changes (attached)

This agenda paper highlights that during the finalisation process, in addition to the two Board members who had previously noted their intent to dissent from the amendment, further Board members have noted they are considering dissenting from the amendment. As a consequence, at the May meeting the IASB will be asked whether it should proceed with the amendments, prior to commencing the final balloting process.

As noted concerns were raised at the April 2014 meeting of ASAF about this amendment – see notes of the meeting available on our website (<http://www.ifrs.org/The-organisation/Advisory-bodies/ASAF/Documents/ASAF-Summary-Note-March-2014.pdf>).

Should you have any questions please do not hesitate to contact me.

Date: 13 May 2014

I have set out below some background to the decision to ask the IASB at its May 2014 meeting whether it wishes to proceed to finalise the Exposure Draft (ED) of proposed amendments to IAS 28

Investments in Associates and Joint Ventures (Equity Method: Share of Other Net Asset Changes) that was published in November 2012.

The ED contains the alternative view of Takatsugu Ochi (see pages 14 and 15). He considers the amendments to be inconsistent with concepts in other Standards and could thereby cause serious conceptual confusion. In particular he considers the amendments to be inconsistent with one of the main principles of IAS 1 *Presentation of Financial Statements*, namely to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owner from other changes in equity. This inconsistency with IAS 1 was also highlighted by respondents to the ED and some ASAF members at their meeting in March 2014.

At its meeting in March 2014 the IASB considered the due process steps undertaken and decided to finalise the proposed amendments, recognising the solution proposed to address diversity in practice was practical rather than conceptual. At this meeting Tak Ochi noted his intention to dissent from the final amendments and a further Board member, appointed subsequent to publication of the ED, also noted their intention to dissent, viewing the solution proposed as not principle based.

Subsequent to the March 2014 IASB meeting, the staff have received feedback from some other Board members indicating that they are also considering dissenting from the final amendments because of the inconsistency with IAS 1. Of these members one member was also appointed after the ED was published.

In light of the above a further Board member has suggested that the project should not continue.

In accordance with the Due Process Handbook a member who intends to dissent from the proposals of the Standard must make their intentions known at the IASB meeting where the due process steps are reviewed. As some of the possible dissents have arisen subsequent to the March meeting the staff consider it prudent to ask the IASB to confirm (or not) its decision to proceed with finalising the amendment to IAS 28.

Henry Rees